


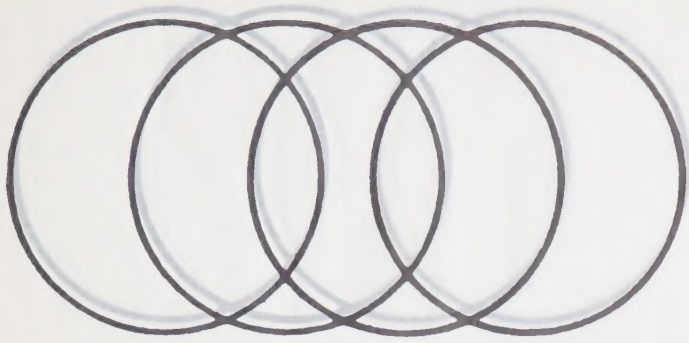
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Tonecraft Limited / Annual Report, 1973



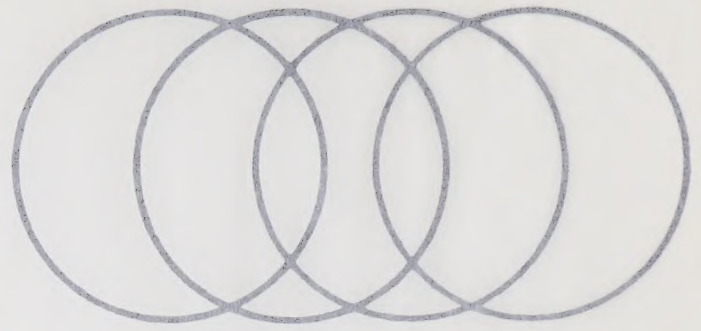
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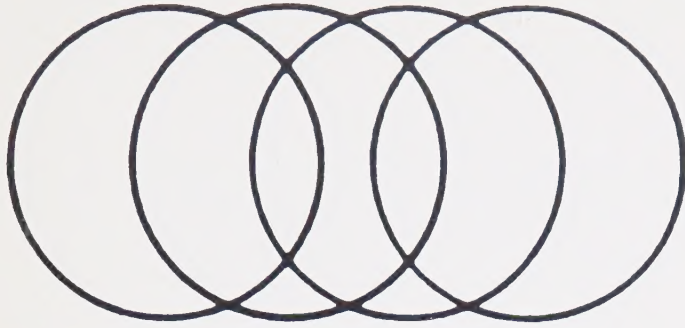
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To our shareholders







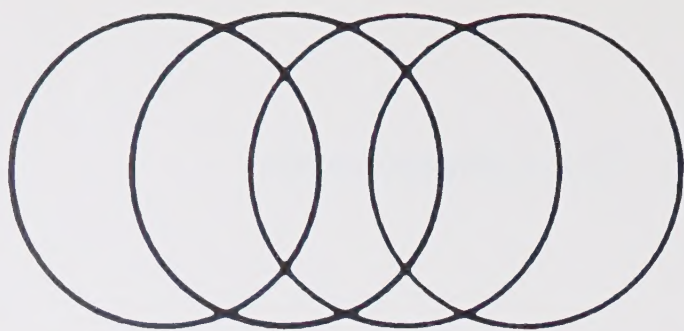
To our shareholders

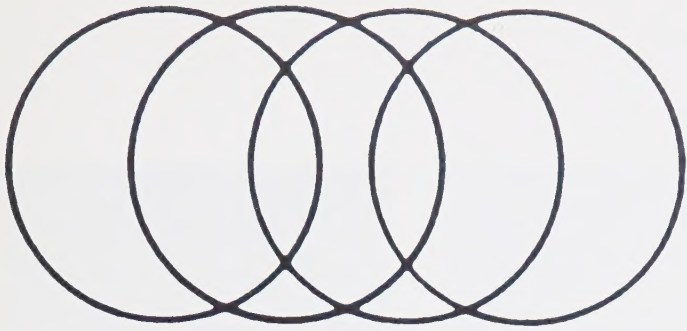
1973 was a significant year from several very different points of view. In terms of new growth and development your company exceeded its plans and objectives of one year ago.

During the year, we opened thirteen new stores. We also acquired Empress Paint Mfg. Co. Ltd. of Victoria, B.C., which gave us five more retail outlets.

Our Associate Dealer Program, established in 1972, grew in parallel with these openings. New stores and conversions from company operated branches, brought the total of associate stores to 28. Further conversions or new store openings will increase the number of associate stores by about 12 during 1974.

World-wide economic conditions existing today, have resulted in shortages of petro-chemicals and other raw materials used in our industry. Thus far Tonecraft has managed the problem with little difficulty. These shortages have resulted in increased product costs but we have been able to hold our price increases to a minimum by improved purchasing methods for raw materials and through our highly efficient



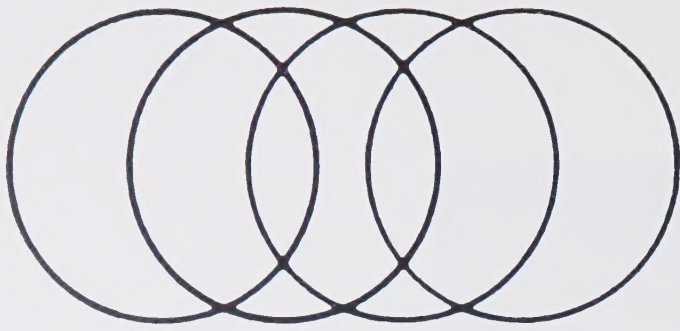


manufacturing facilities. In this way we have maintained our well known competitive position in the market place.

Color Your World's expanding markets continually demand new product development. This supplements and complements the line of home decorating products presently being manufactured and distributed by your company. To this end we have made significant strides in reinforcing our research and development group. Qualified staff has been hired and new facilities are nearing completion. Development of new products and advanced technology is the most important function of this group.

During 1973 our corporate marketing and merchandising department added new, talented personnel. Plans for 1974 include new advertising and promotional programs to ensure the continued success of our marketing drive.

Innovations in the marketing of wallpaper, which we introduced in the first half of 1973, have taken much of the confusion out of wallpaper shopping and resulted in improved sales and profits. This success,

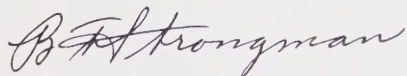


environment conducive to even greater sales through Color Your World retail outlets.


The continued growth of your company, with a proper balance of production facilities keeping pace with our increased penetration in both the retail and commercial market areas, has set the stage for an optimistic future.

Your directors take pleasure in reporting sales of \$14,497,405 for 1973 compared with \$12,364,701 in 1972; an increase of \$2,132,704 or 17.2%. Net income after taxes is \$858,338 for 1973 compared to \$659,864 for 1972. This is an increase of \$198,475 or 30.1%.

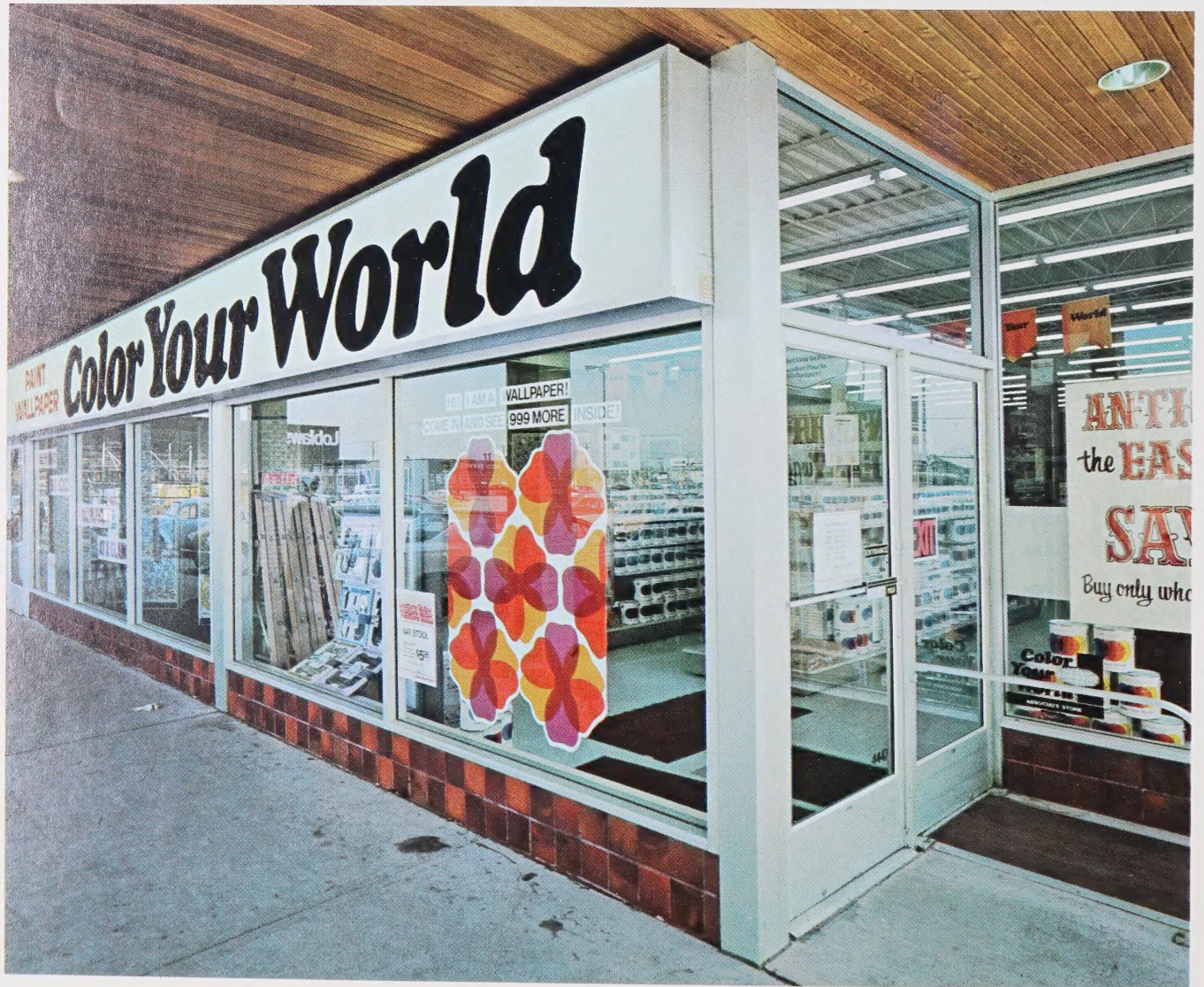
Prospects for 1974 continue to look bright as our expanded marketing base of 1973 takes effect. Significant, continuing growth is anticipated.

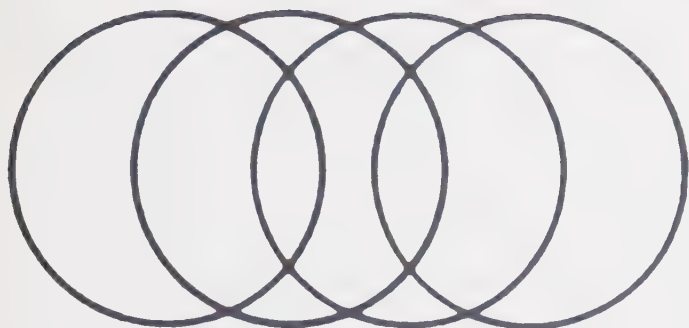


B. F. Strongman, Director



D. R. Strongman, Director





Tonecraft Limited and Subsidiary Companies

Financial Highlights	Thousands of dollars						
	1973	1972	1971	1970	1969	1968	1967
Sales	\$14,497	\$12,364	\$11,391	\$10,317	\$9,513	\$7,495	\$6,267
Net earnings before taxes	1,654	1,286	1,122	892	1,056	889	744
Net earnings after taxes	858	660	562	429	503	435	365
Earnings per common share*	0.61	0.47	0.40	0.31	0.37	0.35	0.30
Dividends per common share*	0.08	0.08	0.067	0.067	0.067	0.067	0.067
Working capital ₅	834	1,671	1,581	1,192	1,555	698	1,200
Depreciation	479	395	317	226	110	72	57
Total assets	12,950	9,615	9,292	8,364	6,828	4,932	3,039
Shareholders equity	5,014**	4,557	4,001**	4,208	3,453	2,743	2,095
Number of common shares outstanding, year end	1,415,200	1,415,200	471,731	466,004	446,264	412,814	399,114

**After intangible asset write-off (See Consolidated Statement of Retained Earnings)

*Adjusted to show comparison per share after 3 for 1 stock split. (September 1972)

₅See Note 5 to Consolidated Financial Statements.

Consolidated Statement of Earnings

Year ended December 31, 1973 (with comparative figures for 1972)

	Thousands of dollars	
	1973	1972
Sales	\$14,497	\$12,364
Cost of goods sold	8,941	7,332
Gross profit	5,556	5,032
Operating expenses other than interest on non-current liabilities	3,726	3,533
Interest on non-current liabilities	243	213
	3,969	3,746
Profit on sale of land	1,587 67	1,286 —
Income before income taxes	1,654	1,286
Income taxes current	671	632
deferred (reduction)	125	(6)
Net income for the year	\$ 796 \$ 858	626 \$ 660
Earnings per common share (dollars)	\$.606	\$.466

Consolidated Statement of Retained Earnings

Year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
Balance at beginning of year	3,281	2,725
Net income for the year	858	660
	4,139	3,385
Deduct		
Dividends on common shares	113	104
Intangible Assets Written Off		
Excess of cost of shares over book value at dates of acquiring shares of subsidiaries (note 1)	288	—
	401	104
Balance at end of year	\$ 3,738	\$3,281

Consolidated Statement of Financial Position

December 31, 1973 (note 1)
(with comparative figures at December 31, 1972)

		Thousands of dollars	
		1973	1972
Current assets	Cash	\$ 10	\$ 9
	Accounts receivable (note 2)	2,123	1,374
	Inventories (note 3)	3,277	2,683
	Prepaid expenses	117	102
	Total current assets	5,527	4,168
Current liabilities	Bank advances, against which book debts have been pledged	1,932	940
	Accounts payable and accrued liabilities	1,221	1,059
	Deferred revenue (note 4)	95	—
	Income and other taxes payable	180	155
	Principal due within one year on non-current liabilities	1,265	343
Total current liabilities		4,693	2,497
Working capital (net current assets) (note 5)		834	1,671
Other assets	Land, buildings and equipment at cost (note 6)	9,008	6,703
	Less accumulated depreciation	1,763	1,341
		7,245	5,362
	Deferred expenses less amortization (note 7)	178	85
		7,423	5,447
Excess of assets over current liabilities		8,257	7,118
Non-current liabilities (note 8)		3,008	2,451
	Deferred income taxes (note 7) (note 9)	235	110
		3,243	2,561
Excess of assets over liabilities		5,014	4,557
Shareholders' equity	Capital stock		
	Authorized:		
	1,615,588 common shares without par value		
	Issued:		
	1,415,200 common shares	1,276	1,276
Retained earnings		3,738	3,281
		\$ 5,014	\$ 4,557

Fixed asset and long term lease commitments (notes 10 and 11).

The attached notes form an integral part of these statements.

Approved by the Board

B. F. Strongman *D. R. Strongman*

B. F. Strongman, Director

D. R. Strongman, Director

**Tonecraft Limited
and Subsidiary Companies**

Consolidated Statement of Source and Application of Funds

Year ended December 31, 1973 (with comparative figures for 1972)

		Thousands of dollars	
		1973	1972
Source of funds	Operations:		
	Net income for the year	\$ 858	\$ 660
	Add items not involving a current outlay of funds:		
	Depreciation and amortization	479	395
	Deferred income taxes (reduction)	125	(6)
	Loss (profit) on disposal of land	(67)	1
		1,395	1,050
	Term bank loans	1,450	—
	Mortgage Proceeds	21	175
	Other non-current liabilities (including \$102,053 assumed on acquisition of subsidiaries)	302	—
	Proceeds from sale of land and equipment	217	163
		3,385	1,388
Application of funds	Additions to land, buildings and equipment (including \$158,457 in 1973 on acquisition of subsidiaries)	2,416	703
	Deferred expenses	189	67
	Dividends	113	104
	Decrease in non-current portion of liabilities	1,216	424
	Excess of cost of shares of subsidiaries over book value at date of acquisition	288	—
		4,222	1,298
Working capital	Increase (decrease) in working capital	(837)	90
	Beginning of year	1,671	1,581
	End of year	\$ 834	\$1,671

Tonecraft Limited and Subsidiary Companies

Notes to the Consolidated Financial Statements

Year ended December 31, 1973

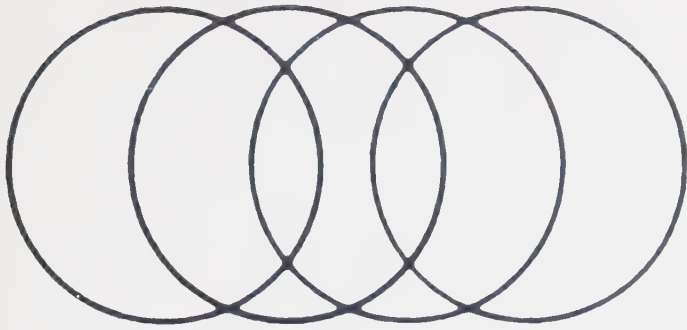
1. Consolidation and acquisition information	The consolidated financial statements include the accounts of all subsidiary companies. The accounts of those companies acquired in 1973 have been included since the date of acquisition. By agreement effective April 30, 1973, all of the outstanding shares of Empress Paint Mfg. Co. Ltd. and Empress Paint Mfg. Co. (Victoria) Ltd. (companies engaged in the manufacture of paint) were acquired. The details of the acquisition which is accounted for as a purchase are as follows: Net assets acquired at book value which approximates fair value\$124,356 Excess of cost of shares over book value at date of acquisition written off to retained earnings288,385 Cash\$212,741 Notes payable200,000 Total consideration given\$412,741			
2. Accounts receivable	Certain extended payment terms are provided initially to new associate dealers as a part of the dealer franchising program. Included in accounts receivable are secured balances totalling \$333,162 which are due beyond one year.			
3. Inventories		1973	1972	
	Raw materials	\$ 604,355	\$ 444,340	
	Tonecraft products	1,801,566	1,429,394	
	Resale merchandise	870,706	809,423	
		<u>\$3,276,627</u>	<u>\$2,683,157</u>	
	Raw materials and resale merchandise are valued at the lower of cost and replacement cost. Tonecraft products are valued at the lower of cost and net realizable value.			
4. Deferred revenue	Deferred revenue includes prepaid associate dealer administration and advertising fees and initial franchise fees collected from new associate dealers. The franchise fees are taken into earnings over a twenty-four month period.			
5. Working capital	It is the companies' intention to re-finance by way of mortgage the principal balances on mortgages falling due in 1974 which balances at December 31, 1973 approximate \$641,500. In addition, subsequent to the year end, the company has arranged new mortgage financing of \$705,000 to provide further working capital.			
6. Land, buildings and equipment		1973		1972
		Cost	Accumulated Depreciation	Net
	Land	\$2,523,217		\$2,221,547
	Buildings	3,460,953	\$ 497,664	2,963,289
	Equipment	2,129,706	1,167,554	962,152
	Leasehold improvements	163,692	97,320	66,372
	Facilities under construction	730,936		730,936
		<u>\$9,008,504</u>	<u>\$1,762,538</u>	<u>\$7,245,966</u>
	Depreciation is calculated on a diminishing balance basis substantially at the following rates:			
	Buildings			5%
	Equipment other than automotive			20%
	Automotive equipment			30%
	Leasehold improvements			over the terms of the leases

Tonecraft Limited and Subsidiary Companies

Notes to the Consolidated Financial Statement (continued)

Year ended December 31, 1973

7. Deferred expenses	Deferred expenses include costs related to the extension of the "Color Your World" marketing concept, wallpaper design and display costs, pre-opening expenses of new stores and the costs of establishing Associate Dealerships. These expenses are being amortized over varying periods not to exceed thirty-six months.		
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8. Non-current liabilities		1973	1972
	Term bank loans* (at a rate which is fixed in relation to bank prime)	\$2,479,459	\$1,212,774
	7 to 11% Mortgages payable	1,419,007	1,473,028
	Notes payable at ¾% over bank prime	200,000	
	Other loans payable	174,230	107,917
		<u>4,272,696</u>	<u>2,793,719</u>
	Less principal included in current liabilities	<u>1,265,000</u>	<u>342,880</u>
		<u>\$3,007,696</u>	<u>\$2,450,839</u>
	Principal due within the next five years is as follows:		
		1974	\$1,265,000
		1975	914,000
		1976	657,000
		1977	527,000
		1978	690,000
	*The term bank loans are demand loans, repayable on specific terms up to 1978.		
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9. Income taxes	The companies reflect in earnings income taxes currently payable and income taxes deferred by claiming deferred expenses and capital cost allowances for tax purposes in amounts differing from amortization and depreciation recorded in the accounts.		
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10. Fixed asset commitments	The companies are committed to a further investment in plant and store facilities of \$1,200,000 at December 31, 1973. Mortgage financing of \$345,000 has been arranged to partially finance this investment and the company intends to arrange further long term financing for the balance.		
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11. Long term leases	Commitments under long term leases covering retail store locations, certain of which are sub-leased to associate dealers, aggregate \$1,700,000, exclusive of occupancy costs, at December 31, 1973. Net rentals in each of the next five years are as follows:		
		1974	\$262,968
		1975	211,388
		1976	161,648
		1977	146,891
		1978	123,091
<hr/>			
12. Other statutory information		1973	1972
	Depreciation	\$382,873	\$325,967
	Amortization	96,298	69,329
	Remuneration of directors and senior officers	225,985	172,205



Auditors' Report

To the
Shareholders of
Tonecraft Limited

We have examined the consolidated statement of financial position of Tonecraft Limited and subsidiary companies as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we

considered necessary in the circumstances. In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Gunn & Co.
Chartered Accountants

Toronto, Canada, February 7, 1974

Tonecraft Limited
and Subsidiary Companies

Board of Directors

D. R. Strongman
W. M. Strongman
B. F. Strongman
J. F. McCallum
W. G. Reid
P. D. Wendling
W. G. Strongman

Officers

D. R. Strongman, Chairman of the Board
W. M. Strongman, President
B. F. Strongman, Executive Vice-President and Secretary-Treasurer
W. G. Strongman, Vice-President
J. L. Bennett, Vice-President — Manufacturing
W. Kenwright, Vice-President — Corporate Development
J. E. Pinington, Vice-President — Finance and Comptroller

Transfer Agent and Registrar

Montreal Trust Company

Auditors

Thorne Gunn & Co.

Solicitors

Harries, Houser, Brown & McCallum

Bankers

Canadian Imperial Bank of Commerce

Listing

Toronto Stock Exchange

